

Corporate Income Tax Return (1996)

Phone Numbers

For assistance, please contact one of the Taxpayer Information and Assistance help numbers:

Phoenix(602) 255-3381
Tucson(520) 628-6421
Other Arizona areas1-800-352-4090
Form Orders(602) 542-4260
Forms by Fax(602) 542-3756
Recorded Tax Information
Phoenix(602) 542-1991
Other Arizona areas1-800-845-8192
Hearing impaired TDD user
Phoenix(602) 542-4021
Other Arizona areas1-800-397-0256
Internet<http://www.state.az.us/revenue>

Which Corporations Must File a Return

Every corporation subject to the Arizona Income Tax Act of 1978 must file an Arizona corporate income tax return.

NOTE: *Homeowners Associations described in IRC § 528 are not exempt from tax under ARS § 43-1201. These associations must file Arizona Form 120. However, certain homeowners associations are federally tax exempt under IRC § 501(c)(4), as social welfare organizations or under IRC § 501(c)(7), as clubs organized for pleasure or recreation. These homeowners associations are similarly tax exempt for Arizona income tax purposes. These organizations may file the Arizona Form 99.*

Limited Liability Companies

Under the provisions of the Arizona Limited Liability Company Act, limited liability companies may be classified as partnerships or as associations taxable as corporations. A limited liability company classified as a partnership for federal tax purposes must file Arizona Form 165. A limited liability company classified as an association taxable as a corporation for

federal tax purposes must file Arizona Form 120.

Electing Small Business Corporations

Corporations taxed as S corporations under Subchapter S of the Internal Revenue Code must file Arizona Form 120S.

Taxable Year Covered by Return

File returns for the calendar year or fiscal year. Indicate the period covered by the taxable year on page 1 of the return and whether the taxable year is a calendar year or a fiscal year.

Filing Original Returns

Returns are due by the 15th day of the fourth month following the close of the taxable year. If the taxpayer has a valid federal or Arizona extension, file the return by the extended due date. Attach a copy of the federal or Arizona extension to the front of the Arizona return. Send the return to the Arizona Department of Revenue, PO Box 29079, Phoenix AZ 85038-9079. One or more of the following officers (president, treasurer, or any other principal officer) must sign the return. Attach a copy of the completed federal return (Form 1120, 1120A, etc.) to the Arizona return.

The department normally determines the timeliness of a return by the postmark or other official mark of the U.S. Post Office stamped on the cover in which the return is mailed. Refer to Arizona General Tax Ruling GTR 93-1 for further information.

Call one of the Taxpayer Information and Assistance help numbers listed above to obtain a copy of the tax ruling.

Rounding Dollar Amounts

Taxpayers must round amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

Filing Methods

There are three methods of filing corporate income tax returns to Arizona: (1) separate company; (2) combined; and (3) consolidated.

Separate Company

A corporation files on a separate company basis if: (1) it is not part of a group of corporations comprising a unitary business; or (2) it is not a member of an affiliated group that elected to file a consolidated return.

UDITPA and Combined Returns

Arizona adopted the Uniform Division of Income for Tax Purposes Act (UDITPA) for taxable years starting January 1, 1984, or later. (Refer to ARS §§ 43-1131 through 43-1150.) Any corporation having income from a business activity which is taxable both within and without Arizona must allocate and apportion its net income according to this Act.

Generally all business income generated by a unitary multistate enterprise subject to taxation under the Internal Revenue Code is subject to apportionment. The unitary business apportions business income by using a three-factor formula. The basis of the formula is property, payroll, and sales in Arizona compared to the same factors for the whole unitary business subject to the Internal Revenue Code. Business income means income arising from transactions and activity in the regular course of the taxpayer's unitary trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations.

A unitary business comprises those parts and components whose functions are integrated and interdependent at the basic operational level. A unitary business may include more than one

corporation. A bond of direct or indirect ownership or control must unite the entities comprising the unitary business. Direct or indirect ownership or control is the ownership or control of more than 50 percent of the voting stock of a subsidiary corporation. When a unitary business comprises more than one corporation, the department requires a combined return, unless the affiliated group elects to file a consolidated return pursuant to ARS § 43-947.

Any filing methods approved by the Arizona Department of Revenue for specific corporations prior to the adoption of UDITPA are no longer in effect.

A unitary group of corporations required to file a combined return must complete Section I of Arizona Form 51 for the first taxable year the group files a combined return. Arizona Form 51 is the combined or consolidated return affiliation schedule. Attach the completed Form(s) 51 to the tax return. In succeeding taxable years, complete Sections II (Additions) and III (Deletions) of Form 51 to report changes in the unitary group. Indicate whether changes have been made to the unitary group by checking the appropriate box for question C in the information section on page 1 of the return.

Foreign Corporation; Water's Edge Limitation

Do not allocate or apportion the income and expenses of foreign corporations to Arizona if the foreign corporations are not themselves subject to the Arizona corporate income tax. This provision does not apply if a foreign corporation is a member of an affiliated group that elects to file an Arizona consolidated tax return.

"Domestic corporation" means a corporation created or organized in the United States or under the laws of the United States, any of its states, or the District of Columbia.

"Foreign corporation" means:

1. A corporation which is not a domestic corporation.

2. A domestic corporation with less than 20 percent of its property, payroll, and sales in the United States. The percentage applies for the three year period ending with the close of the taxable year of the corporation preceding the current taxable year. The percentage is alternatively applied for such part of the period as the corporation has been in existence.
3. A domestic corporation that derived 80 percent or more of its federal gross income from sources in Puerto Rico or any other possession of the United States except the Virgin Islands. This determination is made for the three year period immediately preceding the close of the taxable year, or for such part of that period as the corporation has been in existence. The corporation must also have derived 65 percent or more of its federal gross income from the active conduct of a trade or business in Puerto Rico or any other U.S. possession except the Virgin Islands. This determination is made for the three year period immediately preceding the close of the taxable year, or for such part of that period as the corporation has been in existence.

Finally, the law provides a subtraction from Arizona gross income for all dividend income received from foreign corporations.

Consolidated Returns

The common parent of an affiliated group of corporations that files a federal consolidated return may elect to file an Arizona consolidated return. The election made by the common parent is effective only if accompanied by written consents to the election signed by each of the members of the affiliated group. Arizona Form 122 is the written consent form. Attach the completed Form(s) 122 to the tax return for the first taxable year the affiliated group files a consolidated return. The election is binding on the group for succeeding taxable years unless the department consents to a change of filing method.

The common parent must make the election on or before the due date, including extensions, for filing the original return.

The Arizona affiliated group includes all members of the affiliated group filing a federal consolidated return, regardless of whether each member is subject to tax under Title 43.

In succeeding taxable years, the election made by the Arizona affiliated group to file an Arizona consolidated return is binding on new members of the federal affiliated group. The Arizona affiliated group includes all new members of the affiliated group included in the filing of a federal consolidated return.

The Arizona gross income of an Arizona affiliated group is the consolidated federal taxable income of the affiliated group.

A multistate Arizona affiliated group must allocate and apportion its income to Arizona and is a single taxpayer for purposes of allocation and apportionment. A multistate Arizona affiliated group apportions its income by means of a single apportionment formula.

All members of an Arizona affiliated group are jointly and severally liable for the taxes, interest, and penalties of the Arizona affiliated group under Title 42 and Title 43.

An affiliated group that elects to file a consolidated return must complete Section I of Arizona Form 51. Arizona Form 51 is the combined or consolidated return affiliation schedule. Attach the completed Form(s) 51 to the tax return for the first taxable year the Arizona affiliated group files a consolidated return. In succeeding taxable years, complete Sections II (Additions) and III (Deletions) of Form 51 to report changes in the Arizona affiliated group. Indicate whether changes have been made to the Arizona affiliated group by checking the appropriate box for question C in the information section on page 1 of the return.

Arizona Corporate Tax Rulings CTR 94-10 through CTR 94-13 discuss issues regarding consolidated tax returns. Call one of the Taxpayer Information and Assistance help numbers listed on page 1 of these instructions to obtain copies of the tax rulings.

Treatment of Installment Obligations When Corporation Activities Cease

If a corporation elects to report income from the sale or other disposition of property on the installment method, and does not report the entire amount of income from the sale before the year the corporation ceases to be subject to Arizona corporation income tax, the corporation must report the unreported income in the last year in which the corporation is subject to the tax. This provision does not apply if a reorganization transfers the installment obligation to another taxpayer subject to Arizona tax as the transferee. The transferee may not use its capital losses to offset income from the installment obligation transferred from a corporation no longer subject to the tax.

Payment of Tax

The entire amount of tax is due by the original due date of the return.

Estimated Tax Payments

Corporations that expect an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated tax payments. Use Arizona Form 120ES, *Corporation Estimated Tax Payment*.

The Arizona estimated tax payment calculation should include any tax from the recapture of the environmental technology facility and recycling equipment credits. Include the correctional industries recapture tax, if applicable, in the Arizona estimated tax payment calculation.

For exceptions to the estimated tax requirements, see the instructions for Form 220, *Underpayment of Estimated Tax by Corporations*.

A corporation that fails to make the required estimated tax payments is subject to a penalty plus interest on any estimated tax payment which is late or underpaid.

The Arizona required annual payment of corporate estimated tax is the smaller of:

1. Ninety percent of the taxpayer's Arizona tax liability for the current taxable year; or
2. One hundred percent of the taxpayer's Arizona tax liability for the prior taxable year.

NOTE: *In order for the taxpayer to base its Arizona corporate estimated tax payments on the prior taxable year's tax liability:*

1. *The taxpayer's return filed for the prior taxable year must have shown at least some amount of tax liability (an amount greater than zero); and*
2. *The taxpayer's return filed for the prior taxable year must have been for a period of twelve months.*

Taxpayers required to make Arizona corporate estimated tax payments should use the 1997 Form 120ES Worksheet to compute the required installments. Refer to the 1997 Form 120ES Worksheet and its instructions before completing the 1997 Form 120ES.

Effective for taxable years beginning on or after January 1, 1997, taxpayers whose Arizona corporate income tax liability for the preceding taxable year was \$20,000 or more must make Arizona corporate estimated tax payments via the electronic funds transfer program. If the taxpayer makes its estimated tax payments by electronic funds transfer (EFT), the taxpayer should not submit the Arizona Form 120ES to the department.

Taxpayers required to make estimated tax payments via electronic funds transfer must complete the department's electronic funds transfer authorization agreement at least 30 days prior to initiation of the first applicable transaction. Taxpayers whose Arizona corporate income tax liability for the preceding taxable year was less than \$20,000 may elect voluntary participation in the electronic funds transfer program. Voluntary participants in the program must complete the department's electronic funds transfer authorization agreement at least 30 days prior to the first applicable transaction. Obtain additional information

concerning the Arizona electronic funds transfer program by contacting the EFT Helpline at 1-800-572-7037 (542-2040 in Phoenix). The FAX line is (602) 542-4667.

Extension of Time To File a Return

A request for an Arizona extension of time to file a corporate income tax return is made by filing a completed Arizona Form 120EXT by the original due date of the return. The taxpayer can use a valid federal extension rather than applying for an Arizona extension. The Form 120EXT must be used to transmit any extension payments, whether the taxpayer uses a valid federal extension or requests an Arizona extension. Attach a copy of the federal or Arizona extension to the front of the Arizona return.

The taxpayer must pay 90 percent of the tax liability by the original due date of the return. The tax liability may be the \$50 minimum tax or may include the correctional industries recapture tax. The tax liability may also include tax from the recapture of the environmental technology facility and recycling equipment credits. The department imposes the extension underpayment penalty on any late or underpaid extension payments.

The department grants an Arizona extension for a period of six months. Arizona law provides that six months is the maximum extension of time to file that the department may grant. However, Arizona law provides that the department may accept the federal extension for the same period as covered by the federal extension.

Penalties and Interest

A. Late Filing Penalty. A return filed after the original due date is subject to the late filing penalty unless the taxpayer has a valid federal or Arizona extension. The taxpayer must attach a copy of the valid federal or Arizona extension to the return. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 5 percent of the tax found to be remaining due. The penalty period is each month or fraction of a month between the due date

of the return and the date the taxpayer filed the return. The maximum penalty is 25 percent of the tax found to be remaining due.

B. Extension Underpayment Penalty.

A return filed without an attached valid federal or Arizona extension is subject to the extension underpayment penalty. The taxpayer must pay 90 percent of the tax liability disclosed by the taxpayer's return on or before the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid. The penalty period is each 30 day period or fraction thereof between the original due date of the return and the date the taxpayer paid the tax. The maximum penalty is 25 percent of the tax not paid.

C. Late Payment Penalty. The department imposes the late payment penalty on tax not paid by the date prescribed for its payment. The late payment penalty is 10 percent of the tax not paid within the time prescribed for its payment.

NOTE: *If two or more of the penalties described in A, B, or C apply, the maximum combined penalty is 25 percent.*

D. Interest. The department assesses interest on any portion of the tax, whether determined by the department or the taxpayer, not paid by the date prescribed for its payment. The department applies the rate of interest, compounded annually, in the same manner and at the same times as prescribed by Internal Revenue Code § 6621. On January 1 of each year, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

E. Underpayment of Estimated Tax Penalty. The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 220 for further details. The penalty imposed is the

penalty prescribed by ARS § 43-582 for the applicable period.

Furnishing Data

Corporations must attach a copy of the federal return (along with all schedules and attachments) to the Arizona return.

Do not send in a blank Arizona return with a copy of the federal return; the return will not process accurately. Taxpayers must furnish complete data. Answer all questions on the return. Complete all applicable schedules. Also attach all appropriate supplementary schedules.

Filing Amended Returns

Any taxpayer who files an amended return with the Internal Revenue Service must file an Arizona amended return. The taxpayer must report changes or corrections of the taxpayer's taxable income by the Internal Revenue Service to the department. The taxpayer must also report changes in the taxpayer's taxable income as the result of renegotiation of a contract or subcontract with the United States to the department. The taxpayer must report the change or correction or file an amended return to the department within 90 days after the final determination of the change or correction.

Records

Every corporation should maintain books and records substantiating information reported on the return and keep these documents for inspection. Arizona General Tax Ruling GTR 96-1 discusses the general requirements for the maintenance and retention of books, records, and other sources of information received, created, maintained, or generated through various computer, electronic, and imaging processes and systems. Call one of the Taxpayer Information and Assistance help numbers listed on page 1 of these instructions to obtain a copy of the tax ruling.

Use of Federal Figures

To calculate its Arizona taxable income, each corporation must compute its

federal taxable income and make the adjustments required by Arizona law. (Refer to Article 3, Chapter 11, Title 43, of the Arizona Revised Statutes.) The department requires a combined return for all corporations which comprise a unitary business and are subject to federal income tax. The combined return includes any unitary foreign corporation (see ARS § 43-1101) which is itself subject to the Arizona income tax and federal income tax. An affiliated group of corporations that files a federal consolidated return may elect to file an Arizona consolidated return. A consolidated return includes foreign corporations (see ARS § 43-1101) that are members of an affiliated group that elects to file a consolidated return.

IRC § 7519 Required Payments

Taxpayers cannot deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

Line-by-Line Instructions

Type or print the required information in the name, address, and information boxes on the top of page 1. If this is a consolidated return, enter the common parent corporation's name and address. The name for a consolidated return should include the phrase "and subsidiaries." If this is a combined return, enter the name and address of the corporation under which the group is filing. The name for a combined return should include either the phrase "and unitary subsidiaries" or "and unitary affiliates," whichever is applicable.

Indicate the period covered by the taxable year on page 1 of the return and whether the taxable year is a calendar year or a fiscal year.

Enter the corporation's federal employer identification number, which is the taxpayer identification number (TIN). If this is a consolidated return, enter the TIN of the common parent corporation. If this is a combined return, enter the TIN of the corporation under which the group is filing. Enter the Arizona withholding tax number and Arizona transaction privilege tax number for the

corporation. If this is a consolidated return, enter the common parent corporation's Arizona withholding tax number and Arizona transaction privilege tax number. If the common parent does not have an Arizona withholding tax number or Arizona transaction privilege tax number, leave these boxes blank. If this is a combined return, enter the Arizona withholding tax number and Arizona transaction privilege tax number of the corporation under which the group is filing. If this corporation does not have an Arizona withholding tax number or Arizona transaction privilege tax number, leave these boxes blank.

All returns, statements and other documents filed with the Department of Revenue require a taxpayer identification number (TIN). The TIN is either a correct social security number or, for a business, the federal employer identification number. Paid tax preparers must also include their TIN on forms where requested. Taxpayers and paid preparers who fail to include the proper TIN may be subject to a penalty. Please check the return to be sure that all required identification numbers are accurate and written clearly. Missing, incorrect, or unclear identification numbers may cause delays in processing the returns.

Line 1 - Taxable Income Per Federal Return

Enter taxable income as reported on the federal income tax return filed with the Internal Revenue Service.

Line 2 - Additions to Taxable Income

Enter total adjustments from page 2, Schedule A, line A8. See instructions for Schedule A.

Line 4 - Subtractions From Taxable Income

Enter total adjustments from page 2, Schedule B, line B10. See instructions for Schedule B.

Line 5 - Adjusted Income

Subtract line 4 from line 3 and enter the result. Wholly Arizona corporations should skip lines 6 through 12.

Multistate corporations must complete lines 6 through 12.

Lines 6 Through Line 12 - Apportionment Computation

Any corporation that has income from business activity that is taxable both within and without Arizona must allocate and apportion its net income. The corporation must allocate and apportion its net income according to the Uniform Division of Income for Tax Purposes Act (UDITPA), ARS §§ 43-1131 through 43-1150. A unitary group of corporations or an Arizona affiliated group must also allocate and apportion its net income.

A corporation that has income from business activity taxable in more than one state is a "multistate corporation." A corporation that has income from business activity that is taxable entirely within Arizona is a "wholly Arizona corporation."

Wholly Arizona corporations - do not complete these lines. Multistate corporations - refer to the instructions for Schedules C, D, and E for more detailed information before completing these lines. Do not enter an amount on page 1, line 9, before reading the instructions for Schedule C. The taxpayer must carry out the decimal on line 9 to six places.

Line 13 - Arizona Income Before NOL and Taxes

Wholly Arizona corporations - enter the amount from line 5. Multistate corporations - enter the amount from line 12.

Line 14 - Arizona Basis Net Operating Loss Carryforward

Enter unused net operating losses attributable to Arizona for the last five taxable years. This amount should not exceed the amount on line 13 less the Arizona income tax (line 16).

If the corporation incurred losses in prior taxable years, the corporation can apply these losses against current Arizona income. A net operating loss carryforward applies to the next five succeeding taxable years, subject to certain adjustments and rules. (Refer to ARS § 43-1123 and related rules.)

Attach a separate schedule showing the computation of the loss carried forward.

Arizona Corporate Tax Rulings CTR 91-2 and CTR 94-11 discuss the calculation of an Arizona net operating loss carryforward when the method of filing changes.

Refer to CTR 91-2 for corporations which change their method of filing from separate company to combined or from combined to separate company.

Refer to CTR 94-11 for corporations which change their method of filing from separate company or combined to consolidated. This ruling also discusses the calculation of the net operating loss carryforward for a consolidated return when one or more corporations cease to be members of the affiliated group.

Call one of the Taxpayer Information and Assistance help numbers listed on page 1 of these instructions to obtain copies of the tax rulings.

Line 16 - Arizona Income Tax

Enter Arizona income tax accrued (for an accrual basis taxpayer) or paid (for a cash basis taxpayer). Accrual basis taxpayers see instructions for Schedule F. Accrual basis taxpayers must check the box on Form 120, page 1, line 16.

Line 18 - Arizona Tax

Multiply the Arizona taxable income (page 1, line 17) by 9 percent. If the computed amount of tax is less than \$50, enter the minimum tax of \$50.

Combined or consolidated returns: A unitary group or an Arizona affiliated group is considered a single taxpayer. The minimum tax is imposed on the single taxpayer rather than on each corporation within the group.

Line 19 - Tax From Recapture of Environmental Technology Facility Credit and Recycling Equipment Credit

Enter the amount of tax due from recapture of the environmental technology facility credit and/or the recycling equipment credit from Arizona Form 300, Part II, line 18.

Line 20 - Subtotal

Add lines 18 and 19. This is the amount of tax liability to which the total amount of tax credits claimed by the taxpayer may be applied.

Line 21 - Tax Credits

Enter the allowable tax credit amount from Arizona Form 300, Part II, line 33. This amount cannot be larger than the amount on line 20. Do not include the retroactive consolidation tax payment credit on this line.

1. Defense Contracting Credit.

There are two tax credits for qualified defense contractors. Qualified defense contractors may claim a tax credit for net increases in employment positions under United States Department of Defense contracts and in private commercial employment positions. There is also a tax credit for property taxes paid by a qualified defense contractor. Complete Arizona Form 302 to claim these tax credits.

- 2. Enterprise Zone Credit.** Effective for taxable years beginning from and after December 31, 1995, new requirements apply to the credit claimed by businesses located in an enterprise zone established under Arizona law. Taxpayers may continue to claim the tax credit for previously qualified employees and previously dislocated workers in their second or third year of continuous employment. Taxpayers located in an enterprise zone may now claim a credit for net increases in qualified employment positions. Taxpayers may not claim the credit for qualified employment positions at a business location where tangible personal property is sold at retail. Complete Arizona Form 304 to claim this tax credit.

- 3. Environmental Technology Facility Credit.** This tax credit is for costs incurred in constructing a qualified environmental technology manufacturing, producing, or processing facility as described in ARS § 41-1514.02. Complete

Arizona Form 305 to claim this tax credit.

- 4. Military Reuse Zone Credit.** This tax credit is for net increases in employment of full-time employees working in a military reuse zone established under Arizona law. The employees must primarily engage in providing aviation or aerospace services or in manufacturing, assembling, or fabricating aviation or aerospace products. Complete Arizona Form 306 to claim this tax credit.

5. Recycling Equipment Credit.

This tax credit is for corporate taxpayers who place recycling equipment in service in Arizona. Recycling equipment is new or used equipment purchased during the taxable year and used exclusively to process post-consumer select solid waste materials. Recycling equipment is also manufacturing machinery used exclusively to produce finished products, the composition of which is at least 25 percent post-consumer select solid waste materials. Complete Arizona Form 307 to claim this tax credit.

6. Research and Development Expenses Credit.

This tax credit is for corporate taxpayers who incur qualified research expenses for research conducted in Arizona. The credit applies to qualifying expenses incurred from and after December 31, 1993, through December 31, 1998. The law provides no carryforward for this credit. Complete Arizona Form 308 to claim this tax credit.

7. Correctional Industries Credit.

The allowable tax credit is for the investment in qualified property on the grounds of an Arizona correctional facility. The allowable credit is also for the employment of inmates in the Arizona correctional facility or for the employment of inmates in prison construction (for an Arizona correctional facility). The law provides no carryforward for this credit. Complete Arizona Form 311 to claim this tax credit.

- 8. Agricultural Water Conservation System Credit.** This tax credit is for expenses incurred during the taxable year to purchase and install an agricultural water conservation system in Arizona. The credit applies to taxable years beginning from and after December 31, 1993. Complete Arizona Form 312 to claim this tax credit.

9. Alternative Fuel Vehicles and Equipment Credit.

This tax credit is for the purchase of new alternative fuel vehicle(s) or expenses incurred for the conversion of conventional vehicle(s), or the purchase of alternative fuel delivery system(s) for use in Arizona. The credit applies to taxable years beginning after December 31, 1993, and before January 1, 1999. Complete Arizona Form 313 to claim this tax credit.

10. Underground Storage Tanks Credit.

This tax credit is for expenses incurred by a corporate taxpayer not liable or responsible for corrective actions required due to the release of a regulated substance. The credit applies to taxable years beginning from and after December 31, 1993. There is no carryforward allowed for this tax credit. Complete Arizona Form 314 to claim this tax credit.

- 11. Pollution Control Credit.** This tax credit is for expenses incurred during the taxable year to purchase real or personal property used in the taxpayer's trade or business in Arizona to control or prevent pollution. The credit applies to taxable years beginning from and after December 31, 1994. Complete Arizona Form 315 to claim this tax credit.

12. Construction Materials Credit.

This tax credit is for new construction materials incorporated into a qualifying facility located entirely within Arizona, construction of which is begun on or after January 1, 1994, and completed on or before December 31, 1999. The credit shall be

claimed in the taxable year in which the qualified facility receives a certificate of occupancy. Complete Arizona Form 316 to claim this tax credit.

13. Summer School and Jobs Credit.

This tax credit is for wages paid to students enrolled in the 1996 summer school and jobs program. The law provides no carryforward for this credit. Complete Arizona Form 317 to claim this tax credit.

Complete the appropriate credit forms for each credit. Attach the completed credit forms to the corporate return with the Arizona Form 300.

Line 22 - Credit Type

Indicate which tax credits were claimed on line 21 by writing the applicable form number(s) in the space provided.

If you are claiming:	Write form number:
1. Defense Contracting Credit	302
2. Enterprise Zone Credit	304
3. Environmental Technology Facility Credit	305
4. Military Reuse Zone Credit	306
5. Recycling Equipment Credit	307
6. Research and Development Expenses Credit	308
7. Correctional Industries Credit	311
8. Agricultural Water Conservation System Credit	312
9. Alternative Fuel Vehicles and Equipment Credit	313
10. Underground Storage Tanks Credit	314
11. Pollution Control Credit	315
12. Construction Materials Credit	316
13. Summer School and Jobs Credit	317

Line 23 - Subtotal

Subtract line 21 from line 20. Line 23 cannot be a negative amount.

Line 24 -**Correctional Industries Recapture Tax**

Enter the correctional industries recapture tax from Arizona Form 300, Part II, line 34.

Line 26 -**Retroactive Consolidation Tax Payment Credit**

Complete this line only if: (1) the taxpayer has received a credit voucher from the department indicating the amount of the total overpayment credit from retroactive consolidation; and (2) the taxpayer is filing this return for a taxable year beginning from and after June 30, 1995. Enter the maximum allowable credit for the taxable year, which is the lesser of 10 percent of the total credit as determined by the department or the tax liability (line 25).

Lines 27 and 28 -**Extension and Estimated Payments**

Complete Schedule G, the schedule of tax payments. Enter totals on page 1, lines 27 and 28. See instructions for Schedule G.

Line 29 - Total Payments

Add lines 26, 27, and 28. Enter the total.

NOTE FOR CLAIM OF RIGHT RESTORATION:

If the tax for the 1996 taxable year was computed under the provisions for a claim of right restoration, line 29 also includes the credit for the tax reduction for prior taxable year(s). Refer to Arizona Corporate Tax Procedure CTP 95-3 for further information. Write "ARS § 43-1130.01" and the total amount of the tax reduction for prior taxable year(s) in the space to the left of the total payment amount entered on line 29. The amount entered on line 29 is the total of lines 26, 27, 28 and the tax reduction for prior taxable year(s). Attach a schedule computing the tax reduction for the prior taxable year(s).

Line 30 - Balance of Tax Due

If the amount on line 25 is **larger** than the amount on line 29, there is a balance of tax due. Subtract line 29 from line 25 and enter the difference.

Line 31 - Overpayment of Tax

If the amount on line 29 is **larger** than the amount on line 25, there is an overpayment of tax. Subtract line 29 from line 25 and enter the difference (as a positive number).

Line 32 - Penalty and Interest

Calculate any penalty and interest due as a result of late filing, late payment of tax or extension underpayment of tax. Calculate interest on the amount shown on line 30 at the prevailing rate. The interest period is from the original due date of the return to the payment date. See "Penalties and Interest" section, page 3 of these instructions.

Do not include or enter the amount from Arizona Form 220.

Line 33 - Underpayment of Estimated Tax Penalty and Interest

If the Arizona tax liability is \$1,000 or more, the taxpayer must complete the Form 220 whether or not it is subject to a penalty.

Complete Arizona Form 220, *Underpayment of Estimated Tax by Corporations*, to determine the amount of any penalty and interest due with the original return. Enter the total penalty and interest from Form 220, Part D, line 16. Attach the completed Form 220 to the return **and** check the box on line 33.

The department assesses a penalty if the taxpayer does not attach the completed Form 220 and check the box on line 33 of the Form 120.

Line 34 - Total Due

If the taxpayer had a balance of tax due on line 30, add lines 30, 32, and 33, and enter the total on line 34. This is the total amount due. Pay this amount when the taxpayer files the return. Make the check payable to Arizona Department of

Revenue and include the taxpayer's TIN on the check.

Line 35 - Overpayment

If the taxpayer had an overpayment of tax on line 31, subtract the total of line 32 and line 33 from line 31. Enter a positive difference on line 35. This is the total overpayment. If the difference is negative, enter the difference as a positive number on line 34.

Line 36 - Overpayment Applied to Estimated Tax

The taxpayer may apply part or all of an overpayment reported on line 35 as a 1997 estimated tax payment. Enter the applicable amount on line 36.

Line 37 - Refund

Subtract line 36 from line 35 and enter the result. This is the net refund amount.

Schedule A

On lines A1 through A7 of Schedule A, enter all income taxable under Arizona law that is exempt for federal tax purposes. Also enter all deductions allowed under federal law that are not allowed under Arizona law.

Line A1 - Taxes Based on Income

Enter the amount of taxes based on income paid to states (including Arizona), to foreign governments, or to their political subdivisions.

Line A2 - Interest on Obligations

Enter the amount of federally tax exempt interest on obligations of any state or foreign government, or their political subdivisions (except Arizona).

Line A3 - Federal Special Deductions

Enter the special deductions claimed on the federal tax return for dividends received pursuant to IRC §§ 243, 244, and 245.

Line A4 - Federal Net Operating Loss

Enter the federal net operating loss deduction claimed on the federal tax return.

Line A5 - Federal Income Tax Refund

Line A5 is for wholly Arizona corporations only; multistate corporations see Schedule E. Enter the amount of any federal income tax refund for a prior taxable year that resulted in a tax benefit for Arizona income tax purposes. Include any federal Form 1139 refunds received that resulted in a tax benefit for Arizona tax purposes.

Line A6 - Domestic International Sales Corporations (DISC)

Enter commissions, rentals, and other amounts paid or accrued to a Domestic International Sales Corporation (DISC) controlled by the payor corporation. Make this adjustment if the DISC does not have to report its taxable income to Arizona because its income is not derived from or attributable to sources within Arizona. "Control" means direct or indirect ownership or control of 50 percent or more of the voting stock of the DISC by the payor corporation.

Line A7 - Other Additions to Federal Taxable Income

Enter on line A7 the following "other additions" to federal taxable income. Attach a schedule detailing these additions.

A. Excess of Partner's Share of Partnership Taxable Income or Loss

Enter the excess of a partner's share of partnership taxable income included under ARS §§ 43-1401 through 43-1413 over the partner's share of income reported under Internal Revenue Code Section 702(a)(8). Enter the excess of a partner's share of partnership losses determined according to Section 702(a)(8) of the Internal Revenue Code over the losses allowable under ARS §§ 43-1401 through 43-1413.

Wholly Arizona corporation - If the amount on Arizona Form 165 Schedule K-1(NR), line 15, column 3, is positive, enter that amount here.

Multistate corporation - If the amount on Arizona Form 165 Schedule K-1(NR), line 15, column 3, from a *wholly Arizona partnership* is positive, enter that amount here. For a *multistate*

partnership, add the amount on Arizona Form 165 Schedule K-1(NR), line 15, column 1, to the amount of any nonapportionable income (or loss) included in the schedule (for line 15, column 1). If the total is positive, enter that amount here.

B. Federal Exploration Expenses

Enter the amount of IRC § 617 exploration expenses in excess of \$75,000 and the amount of such expenses deferred not in excess of \$75,000.

C. Contributions

Enter the amount of IRC § 170 contributions to an educational institution which denies admission, enrollment, or board and room accommodations on the basis of race, color, or ethnic background. Do not include contributions to institutions primarily established for the education of American Indians.

D. Federal Depreciation or Amortization

Enter the amount of depreciation or amortization deducted pursuant to IRC §§ 167, 179, or 188 for the following:

1. Child care facilities - If the taxpayer made an election to amortize pursuant to ARS § 43-1130 or an election to claim a tax credit pursuant to ARS § 43-1163, subsection A, paragraph 1.
2. Pollution control devices - If the taxpayer made an election to amortize pursuant to ARS § 43-1129.
3. Recycling equipment - If the taxpayer made an election to claim a tax credit under ARS § 43-1164.
4. Capital investment by qualified defense contractor - If the taxpayer made an election, pursuant to ARS § 43-1024, to amortize the cost of any new device, machinery, equipment, or other capital investment. The taxpayer must use the device, machinery, equipment, or other capital investment exclusively for private commercial activities in Arizona.

5. Solar energy devices - If the taxpayer made an election to amortize the device or claim the tax credit before January 1, 1988, and installed the device before January 1, 1988.

E. Expenses and Interest Relating to Income Not Taxed by Arizona

Enter expenses and interest relating to income not taxed by Arizona. Refer to ARS § 43-961.5 or ARS § 43-1121.4.

F. Property Taxes Paid by a Qualified Defense Contractor

Enter the amount paid as taxes on property located in Arizona included in the federal taxable income of a qualified defense contractor. Make this adjustment if the taxpayer elected to claim a credit under ARS § 43-1166 for such taxes.

G. Gain on Sale of Capital Investment by a Qualified Defense Contractor

Enter the amount of gain from the sale or other disposition of a capital investment which a qualified defense contractor elected to amortize pursuant to ARS § 43-1024.

H. Agricultural Water Conservation System Expenses

Enter the amount of agricultural water conservation system expenses deducted pursuant to the Internal Revenue Code for which the taxpayer claimed a tax credit under ARS § 43-1172.

I. Excess Federal Depreciation or Amortization for a Qualified Environmental Technology Facility

Enter the excess of depreciation or amortization computed on the federal basis of the facility over depreciation or amortization computed on the Arizona adjusted basis of the facility. Make this adjustment for the facility for which the taxpayer claimed a tax credit under ARS § 43-1169.

J. Excess in Federal Adjusted Basis of a Qualified Environmental Technology Facility

Enter the amount by which the federal adjusted basis of the facility exceeds the Arizona adjusted basis of the facility.

Make this adjustment if the facility or any component of the facility for which the taxpayer claimed a tax credit under ARS § 43-1169 was sold or otherwise disposed of during the taxable year.

K. Tax Exempt Insurance Company Loss

Enter the loss of an insurance company exempt under ARS § 43-1201 to the extent included in computing Arizona gross income on a consolidated return pursuant to ARS § 43-947.

L. Excess Federal Depreciation or Amortization for Pollution Control Property

Enter the excess of depreciation or amortization computed on the federal basis of the property over depreciation or amortization computed on the Arizona adjusted basis of the property. Make this adjustment for the property for which the taxpayer claimed a tax credit under ARS § 43-1170.

M. Excess in Federal Adjusted Basis of Pollution Control Property

Enter the amount by which the federal adjusted basis of the property exceeds the Arizona adjusted basis of the property. Make this adjustment if the property for which the taxpayer claimed a tax credit under ARS § 43-1170 was sold or otherwise disposed of during the taxable year.

N. Summer School and Jobs Program Wages

Enter the amount of wages paid to students enrolled in the 1996 summer school and jobs program that is equal to the amount of the tax credit taken by the taxpayer.

O. Claim of Right Adjustment for Amounts Repaid in Current Taxable Year

Enter the amount of the deduction claimed under IRC § 1341(a)(4), for restoration of a substantial amount held under a claim of right, which was included in the computation of Arizona gross income.

P. Excess Federal Capital Loss Carryover Under a Claim of Right Restoration

Enter the amount by which a capital loss carryover allowable pursuant to IRC § 1341(b)(5) exceeds the capital loss carryover allowable pursuant to ARS § 43-1130.01, subsection F.

Schedule B

On lines B1 through B9 of Schedule B, enter all income which is exempt from Arizona tax which is taxable under federal law. Also enter any deduction allowed under Arizona law which is not deductible for federal tax purposes.

Line B1 - Dividends, 50 Percent or More Business in Arizona

Enter dividends received from corporations subject to Arizona income tax which do 50 percent or more of their business in Arizona.

Line B2 - Dividends From Controlled Domestic Corporations

Enter dividend income received from a domestic corporation owned or controlled, directly or indirectly, by the recipient corporation. Do not include amounts here that were reported on line B1.

"Control" means direct or indirect ownership or control of 50 percent or more of the voting stock of the payor corporation by the recipient corporation. Dividends shall have the meaning provided in IRC § 316.

NOTE: Do not include IRC § 78 dividend income on line B2.

Line B3 - Foreign Dividend Gross-up

Enter Internal Revenue Code § 78 ("Gross-up") dividends.

Line B4 - Dividends From Foreign Corporations

Enter the dividend income received from foreign corporations as defined in ARS § 43-1101.

Line B5 - Dividends From DISC

Enter any income from a Domestic International Sales Corporation (DISC) which federal law requires its shareholders to include in income. Refer to Section 995 of the Internal Revenue Code.

Line B6 - Interest on U.S. Obligations

Enter the interest on U.S. obligations not taxed by Arizona but subject to federal tax.

Line B7 - Agricultural Crops Contributed to Charitable Organizations

Arizona law allows a subtraction for qualified crop contributions made during the taxable year to one or more Arizona tax exempt charitable organizations for use in Arizona. Refer to Income Tax Procedure ITP 93-2 for information on how to determine if the contribution qualifies for the subtraction. Call one of the Taxpayer Information and Assistance help numbers listed on page 1 of these instructions to obtain a copy of the tax procedure.

Line B8 - Alternative Fuel Vehicles and Equipment

Arizona law allows a subtraction for the purchase of new alternative fuel vehicles and for the purchase of refueling equipment. Arizona law also allows a subtraction for the cost of converting conventional vehicles to operate on an alternative fuel. The subtraction applies to taxable years beginning from and after December 31, 1993. Complete Arizona Form 313, Part I, to claim this subtraction. Enter the amount from Arizona Form 313, Part I, line 28.

Line B9 - Other Subtractions From Federal Taxable Income

Enter on line B9 the following "other subtractions" from federal taxable income. Attach a schedule detailing these subtractions.

A. Capital Losses

Enter net capital losses up to \$1,000 which are deductible for Arizona tax purposes but are not deductible for

federal tax purposes. Arizona law allows this subtraction for an Arizona capital loss carryover only from taxable years beginning before January 1, 1988.

B. Refunds From Other States

Enter any refunds from states other than Arizona and from foreign governments or their political subdivisions included in federal taxable income.

C. Excess of Partner's Share of Partnership Income or Loss

Enter the excess of a partner's share of income included under Internal Revenue Code Section 702(a)(8) over the income included under ARS §§ 43-1401 through 43-1413. Enter the excess of a partner's share of partnership losses determined according to ARS §§ 43-1401 through 43-1413, over the losses allowable under Internal Revenue Code Section 702(a)(8).

Wholly Arizona corporation - If the amount on Arizona Form 165, Schedule K-1(NR), line 15, column 3, is negative, enter that amount here.

Multistate corporation - If the amount on Arizona Form 165, Schedule K-1(NR), line 15, column 3, from a *wholly Arizona partnership* is negative, enter that amount here. For a *multistate partnership*, add the amount on Arizona Form 165, Schedule K-1(NR), line 15, column 1, to the amount of any nonapportionable income (or loss) included in the schedule (for line 15, column 1) attached to the Arizona Schedule K-1(NR). If the total is negative, enter that amount here.

D. Expense Recapture, Mine Explorations

Enter any expense recapture for mine exploration expenses included in income under federal law (see IRC § 617).

E. Deferred Exploration Expenses

Arizona law allows a subtraction for exploration expenses added to Arizona gross income on line A7 (refer to ARS § 43-1121, paragraph 8). The taxpayer claims the subtraction on a ratable basis as the units of produced ores or the minerals discovered or explored by reason of such expenditures are sold. An

election made for any taxable year is binding for that taxable year.

Treat property sold in the same manner and on the same basis as other property held for the production of income. (Refer to ARS § 43-1021, paragraph 8 or to ARS § 43-1022, paragraph 11.)

F. Exploration Expenses; Oil, Gas or Geothermal Resources

Enter exploration expenses related to exploration of oil, gas, or geothermal resources. Compute the expenses in the same manner and on the same basis as a deduction for mine exploration under IRC § 617. The computation is subject to certain adjustments shown above for line A7, item B, and line B9, items D and E.

G. Amortization of Facilities and Equipment**1. Cost of Child Care Facilities.**

Any taxpayer operating a child care facility for profit may elect to subtract any expenditure made to purchase, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction ratably over 60 months beginning with the month in which the taxpayer places the property in service.

Any taxpayer operating a child care facility within Arizona, primarily for its employees' children, may elect to subtract expenditures made to acquire, construct, renovate, or remodel the facilities or equipment. The taxpayer may take the subtraction over a period of 24 months, beginning with the month in which the taxpayer places the property in service.

A taxpayer who elects to amortize expenditures over a period of 24 months, pursuant to ARS § 43-1130, must attach a schedule. The schedule must show:

- A clear description of the property.
- The date of expenditure or the period during which the taxpayer made the expenditures for the property.
- The date the property was placed in service.

- d. The amount of the expenditure.
- e. The annual amortization subtraction claimed for the property.

The amortization is in lieu of federal depreciation or amortization on the facilities.

2. Pollution Control Devices.

Any taxpayer may choose to amortize the adjusted basis of any device, machinery, or equipment used for collection and control of the source of atmospheric and water pollutants and contaminants. The taxpayer may take the subtraction over a period of 60 months.

If a taxpayer chooses not to amortize pollution control devices over a period of 60 months, the taxpayer may take a deduction for depreciation computed under IRC § 167.

3. Amortization of Capital Investment by a Qualified Defense Contractor.

Enter the amount allowed by ARS § 43-1024 for amortization by a qualified defense contractor of a capital investment for private commercial activities.

H. Interest on Federally Taxable Arizona Obligations

Enter the amount of interest income received on obligations of the State of Arizona, or any of its political subdivisions, included in federal taxable income. Omit interest income received on obligations of the State of Arizona, or any of its political subdivisions, exempt from federal taxation and not included in Arizona gross income.

Corporations should not make this adjustment on the corporation's Arizona tax return for such income included in the corporate partner's share of partnership income (or loss). The partnership makes this adjustment on the Arizona Form 165. The adjustment to Arizona basis from Arizona Form 165 Schedule K-1(NR), line 15, already includes this adjustment.

I. Expenses and Interest Relating to Tax Exempt Income

Enter expenses and interest relating to income exempt for federal tax purposes that is taxable on the Arizona return.

J. Gain on Sale of Capital Investment by a Qualified Defense Contractor

Enter the amount of gain included in federal taxable income on the sale or other disposition of a capital investment. Make this adjustment if a qualified defense contractor elected to amortize the capital investment pursuant to ARS § 43-1024.

K. Tax Exempt Insurance Company Income

Enter the income of an insurance company exempt under ARS § 43-1201 to the extent included in computing Arizona gross income on a consolidated return pursuant to ARS § 43-947.

L. Contributions to Individual Medical Savings Accounts

Enter the amount of contributions made by the taxpayer during the taxable year to individual medical savings accounts established on behalf of the taxpayer's employees pursuant to, and subject to the limitations of, ARS § 43-1028. The subtraction is allowed for such contributions to the extent that the contributions are not deductible by the taxpayer under the Internal Revenue Code.

M. Excess Arizona Capital Loss Carryover Under a Claim of Right Restoration

Enter the amount by which a capital loss carryover allowable pursuant to ARS § 43-1130.01, subsection F, exceeds the capital loss carryover allowable pursuant to IRC § 1341(b)(5).

Schedule C - Apportionment Formula (Multistate Corporations or Multistate Unitary Groups or Multistate Arizona Affiliated Groups Only)

ARS §§ 43-1131 through 43-1150 govern the apportionment of income. A corporation or a unitary group of corporations or an Arizona affiliated

group that engages in activities both within and without Arizona must apportion business income.

The taxpayer must base the apportionment on property, payroll, and sales in Arizona as compared with everywhere. "Everywhere" means the property, payroll, and sales factors related to the whole unitary business or the business activities of the Arizona affiliated group. The everywhere factors are limited to the factors of the corporation(s) included in this return.

A combined return excludes the factors of a unitary foreign corporation unless the foreign corporation is itself subject to the Arizona corporate income tax. A consolidated return includes the factors of a foreign corporation that is a member of the affiliated group, but excludes the factors of an insurance company exempt under ARS § 43-1201.

When the taxpayer uses the apportionment method, complete lines 6 through 12 on page 1.

ARS § 43-1148 provides administrative relief if the allocation and apportionment provisions of UDITPA do not fairly represent the extent of the taxpayer's business activity in this state. The taxpayer may petition for or the department may require, in respect to all or any part of the taxpayer's business activity, if reasonable:

1. Separate accounting, except with respect to an Arizona affiliated group, as defined in ARS § 43-947.
2. The exclusion of any one or more of the factors.
3. The inclusion of one or more additional factors which will fairly represent the taxpayer's business activity in this state.
4. The employment of any other method to effectuate an equitable allocation and apportionment of the taxpayer's income, other than disallowance of a properly elected consolidated return.

This section permits a departure from the allocation and apportionment provisions only in limited and specific cases. ARS § 43-1148 may be invoked only in specific

cases where unusual fact situations produce incongruous results under the apportionment and allocation provisions.

Taxpayers seeking such relief should submit a letter to the Corporate Income Tax Audit Section 60 days prior to the filing of the return setting forth the relief that is requested and the justification for the relief.

The department normally makes such determinations only upon audit of the taxpayer. Such a detailed examination of the specific facts and circumstances reveals whether such unusual fact situations and incongruous results exist.

NOTE: ARS § 43-1139 (Allocation of business income) provides that the apportionment ratio is a fraction. The numerator of the fraction is the property factor plus the payroll factor plus two times the sales factor. The denominator of the fraction is four.

Line C1 - Property Factor

The value of tangible personal property and real property owned by the taxpayer is its original cost. The taxpayer normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period.

The value of tangible personal property and real property rented by the taxpayer is eight times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the taxpayer for rented property, less the aggregate annual subrental rates paid by subtenants of the taxpayer. The taxpayer automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

Report real property situated and tangible personal property permanently located in Arizona as property within Arizona. Allocate the value of mobile property to Arizona based on the total time that the property was within Arizona.

Line C2 - Payroll Factor

Report salaries, wages, or other compensation of officers, employees, etc., as within Arizona if performance of the services occurs here. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable business carried on outside the state or in interstate or foreign commerce. Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

1. The services performed outside of Arizona are incidental to the employee's service within Arizona; or
2. The employee's base of operation is in Arizona; or
3. The employee has no base of operation in any state but the direction or control of the employee is from Arizona; or
4. The employee has no base of operation in any state, and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in Arizona.

Line C3 - Sales Factor

The term "sales" includes all gross receipts from transactions and activities in the course of the regular trade or business that produce income.

In general, determine sales within Arizona on a destination sales basis.

U.S. Government sales are Arizona sales if shipment of the property is from an office, store, warehouse, factory, or other storage place in Arizona. If the taxpayer is not taxable in the state of the purchaser, the Arizona sales include the property shipped from an office, store, warehouse, factory, or other storage place in Arizona.

NOTE: Multiply the amount entered on line C3(e), column (a), the total Arizona sales, by 2 (double weighted sales factor on line C3(f), column (a)). Enter the amount on line C3(g), column (a). Do not double the amount entered on line C3(g), column (b), the everywhere sales of the taxpayer. Example: The taxpayer has total Arizona sales of \$100,000 and total everywhere sales of \$1,000,000. On line C3(g), column (a), enter \$200,000 of Arizona sales. On line C3(g), column (b), enter \$1,000,000 of everywhere sales for the taxpayer.

The sales factor ratio on line C3(g), column (c) may, in certain circumstances, exceed 100 percent. However, since the total ratio (line C4, column (c)) is divided by four, the average ratio (line C5) will not exceed 100 percent.

Line C5 - Average Ratio

Divide the total ratio, line C4, column (c) by four. Enter the average ratio amount here and on page 1, line 9. Express the ratio as a decimal carried out to six places.

NOTE: Do not exclude a factor from the total ratio (line C4, column (c)) if the numerator of a factor is zero and the denominator of a factor is greater than zero. However, the taxpayer must exclude a factor if both the numerator and the denominator of a factor are zero. If the property or payroll factor is excluded, determine the average ratio (line C5, column (c)) by dividing the total ratio by three. If the sales factor is excluded, determine the average ratio by dividing the total ratio by two.

Schedule D - Nonapportionable Income and Expenses (Multistate Corporations or Multistate Unitary Groups or Multistate Arizona Affiliated Groups Only)

The taxpayer must apportion all business income (and expenses) by the use of the apportionment formula. Nonbusiness income is nonapportionable and specifically allocable to a particular state.

Subtract nonbusiness income from the Arizona adjusted income of the taxpayer (page 1, line 6) to compute the amount of income that is subject to apportionment (page 1, line 8). Use Schedule D to compute the amount of nonapportionable income (and expenses) subtracted on page 1, line 7.

"Business income" means income arising from transactions and activity in the regular course of the taxpayer's trade or business. Business income includes income from tangible and intangible property if the acquisition, management, and disposition of the property constitute integral parts of the taxpayer's regular trade or business operations. (ARS § 43-1131) "Nonbusiness income" means all income other than business income. (ARS § 43-1131)

On lines D1 through D5, enter all income (or loss) which is nonapportionable or specifically allocable to Arizona. Refer to ARS §§ 43-1134 through 43-1138 for the methods of allocating certain types of nonbusiness income. Refer to the specific line instructions listed below.

Line D1 - Nonbusiness Dividend and Interest Income

1. Enter all nonbusiness dividend income not deducted in Schedule B.
2. Enter nonbusiness interest income.

Line D2 - Nonbusiness Net Royalties

Enter any net royalties from nonbusiness properties. Attach a separate schedule to the return showing each royalty.

Line D3 - Nonbusiness Net Rental Income

Enter any net rental income from nonbusiness properties. Attach a separate schedule to the return showing each rental property.

Line D4 - Gain or (Loss) From Sale(s) of Nonbusiness Assets

Enter any gain or loss recognized on the disposal of nonbusiness property. Identify each item of nonbusiness property and the gain or loss recognized on such property on a separate schedule. Do not include any gain or loss

recognized on the disposal of property used in connection with the unitary business or the business activities of the Arizona affiliated group. Such income is business income and is subject to apportionment.

Line D5 - Other Income

Enter any other nonapportionable or wholly allocable items. Attach a complete schedule detailing the items. Enter the amount of any nonapportionable income (or loss) from the schedule (for line 15, column 1) attached to the Arizona Schedule K-1(NR) from a multistate partnership.

Treatment of a nonbusiness partnership

Wholly Arizona nonbusiness partnership - Enter the total amount of income (or loss) from the partnership. This is the amount included in the corporation's Arizona gross income plus the amount included in Schedule A or B. This amount is nonapportionable income and it is specifically allocable to Arizona.

Multistate nonbusiness partnership - Enter only the amount of income (or loss) from the partnership included in the corporation's Arizona gross income as nonapportionable income. Line D5 of Schedule D already includes the nonapportionable income or loss from the partnership on the Arizona Schedule K-1(NR).

Line D7 - Foreign Income Expenses

Enter any expenses attributable to foreign income producing activities. Refer to ARS § 43-1132. Attach a schedule showing the expenses included on this line.

Line D8 - Total Nonapportionable Income and Expense

This is the total amount of nonapportionable income (loss) and expenses. Enter this amount here and on page 1, line 7.

NOTE: *If this amount is negative, enter the amount here and on page 1, line 7. To calculate page 1, line 8, remember to add line 6 to line 7 instead of subtracting, as the instructions indicate.*

Schedule E - Other Income Allocated to Arizona (Multistate Corporations or Multistate Unitary Groups or Multistate Arizona Affiliated Groups Only)

On lines E1 through E6, enter all income (or loss) which is allocable to Arizona. ARS §§ 43-1134 through 43-1138 specify the methods for allocating certain types of income to Arizona. The specific line instructions below summarize the provisions of these statutes. Do not include any nonbusiness income which is allocable to another state in Schedule E. Enter the total amount of income (or loss) allocated to Arizona on line E7 and on page 1, line 11.

Line E1 - Gain or (Loss) From Sale(s) of Arizona Nonbusiness Assets

Capital gains and losses from sales of real property located in Arizona are allocable to Arizona. Gains or losses from sales of tangible personal property are allocable to Arizona if the property had a situs in Arizona at the time of sale. Such gains or losses are also allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not taxable in the state in which the property had a situs.

Line E2 - Net Rental Income of Arizona Nonbusiness Assets

Net rents from real property located in Arizona are allocable to Arizona. Net rents from tangible personal property are allocable to Arizona to the extent that the taxpayer uses the property in Arizona. Such net rents are entirely allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not organized under the laws of or taxable in the state in which the taxpayer uses the property. The extent of use for net rents is determined by Arizona law. See ARS § 43-1135.C.

Line E3 - Net Royalties From Arizona Nonbusiness Assets

Net royalties from real property located in Arizona are allocable to Arizona. Net royalties from tangible personal property are allocable to Arizona to the extent that the taxpayer uses the property in

Arizona. Such net royalties are entirely allocable to Arizona if the taxpayer's commercial domicile is in Arizona and the taxpayer is not organized under the laws of or taxable in the state in which the taxpayer uses the property. The extent of use for net royalties is determined by Arizona law (see ARS § 43-1135.C). Patent and copyright royalties are allocable to Arizona to the extent that:

1. The payor uses the patent or copyright in Arizona.
2. The payor uses the patent or copyright in a state in which the taxpayer is not taxable and the taxpayer's commercial domicile is in Arizona. The extent of use for patents and copyrights is determined by Arizona law (see ARS § 43-1138.B and ARS § 43-1138.C).

Line E4 - Income From Arizona Nonbusiness Intangibles

Capital gains and losses from sales of intangible personal property are allocable to Arizona if the taxpayer's commercial domicile is in Arizona, unless the gains (losses) constitute business income.

Line E5 - Federal Income Tax Refund

Enter any prior taxable year federal income tax refund that resulted in a tax benefit for Arizona income tax purposes. Include any federal Form 1139 refunds

received that resulted in a tax benefit for Arizona tax purposes.

Line E6 - Other Income or (Loss)

Enter any other income or (loss) directly allocable to Arizona. Attach a complete schedule detailing the items. Enter any income (or loss) which is specifically allocable to Arizona from the schedule (for line 15, column 3) attached to the Arizona Schedule K-1(NR) from a multistate partnership.

Treatment of a nonbusiness partnership

Wholly Arizona nonbusiness partnership - Enter the total amount of income (or loss) from the partnership (the amount from Schedule D, line D5) as income specifically allocable to Arizona.

Multistate nonbusiness partnership - Enter only the amount of income (or loss) from the partnership included in the corporation's Arizona gross income as income specifically allocable to Arizona. Schedule E, line E6, already includes the income or loss from the partnership on the Arizona Schedule K-1(NR) which is specifically allocable to Arizona.

Schedule F (Accrual Basis Taxpayers Only)

Cash basis taxpayers - do not use this worksheet.

Accrual basis taxpayers that do not have tax from the recapture of tax credits AND are not claiming tax credits - use the Schedule F worksheet on Arizona Form 120, page 3, to compute the Arizona tax deduction (page 1, line 16). The Arizona tax deduction computed for page 1, line 16, must equal the tax computed for page, line 18.

Example - Taxpayer X had Arizona taxable income of \$20,000 before the Arizona tax deduction.

Schedule F Example:

Line F1	\$ 20,000.00
Line F2	× 0.09
Line F3	1,800.00
Line F4	÷ 1.09
Line F5	\$ 1,651.00

Accrual basis taxpayers that have tax from the recapture of tax credits OR are claiming tax credits - use the Schedule F worksheet in the following instructions to compute the Arizona tax deduction (page 1, line 16). **DO NOT COMPLETE THE SCHEDULE F WORKSHEET ON ARIZONA FORM 120, PAGE 3.** The Arizona tax deduction computed for page 1, line 16, must equal the tax liability (page 1, line 25). Taxpayers that have tax from the recapture of tax credits OR are claiming tax credits must complete Arizona Form 300 before completing the Schedule F worksheet in the following instructions.

F1	Arizona income before taxes - from page 1, line 15	F1	_____
F2	Arizona tax rate	F2	_____ .09
F3	Subtotal: multiply line F1 by line F2 (if less than \$50, enter the minimum tax of \$50)	F3	_____
F4	Tax from recapture of tax credits - from Form 300, Part II, line 18	F4	_____
F5	Subtotal: add lines F3 and F4	F5	_____
F6	Tax credits - from Form 300, Part II, line 33	F6	_____
F7	Subtotal: subtract line F6 from line F5	F7	_____
F8	Recapture tax - from Form 300, Part II, line 34	F8	_____
F9	Subtotal: add line F7 and line F8	F9	_____
F10	1 plus the tax rate - line F2	F10	_____ 1.09
F11	Tentative Arizona tax deduction - line F9 divided by line F10	F11	_____
F12	Line F1 minus line F11 - If less than zero, enter 0	F12	_____
F13	Arizona tax deduction - If line F12 is less than or equal to \$556, enter the total of the \$50 minimum tax plus line F4 minus line F6 plus line F8. If line F12 is greater than \$556, enter the amount from line F11. In either case, the amount entered cannot be less than line F8. Enter the applicable amount here and on page 1, line 16. This must equal the tax liability computed for page 1, line 25.	F13	_____

Schedule G

Use this schedule to list any corporate estimated tax payments or extension payments made which the taxpayer is applying to this return. For each payment, list the name of the corporation making the payment, its federal employer identification number, date of payment, type of payment, and amount of payment. For the type of payment, identify estimated payments (including application of overpayment from 1995) and extension payments. Attach an additional list of payments if the taxpayer paid more payments than shown on the form. Do not include the

retroactive consolidation tax payment credit or the claim of right credit computed under ARS § 43-1130.01 in this schedule.

NOTE: *The total estimated payments and extension payments reported on this schedule must equal the amounts reported on page 1, lines 27 and 28.*

Schedule H

All taxpayers must complete lines H1 through H8. If the answers are lengthy, continue the answers on a separate sheet of paper.

Lines H9 and H10 apply only to multistate taxpayers. Attach any required explanations for these lines to the return.

Certification

One or more of the following officers (president, treasurer, or any other principal officer) must sign the return. Complete the signature of the paid preparer, TIN, and date lines on page 4.

Arizona Nonconformity With Current Federal Code

Arizona has not conformed to recent changes to the Internal Revenue Code. Therefore, the Internal Revenue Code used to compute Arizona income will not be the same as the Internal Revenue Code used to compute federal income.

As a result, the federal income reportable on the Arizona return may not be the same as the federal income reported on the federal return. Because Arizona uses federal income as a starting point for the Arizona return, some taxpayers may have to make adjustments to the income reported on the federal return in order to compute federal income for the Arizona return. You must make these adjustments if any of the following affects the computation of your federal income.

- The Small Business Job Protection Act
- The Health Insurance Portability and Accountability Act
- The Personal Responsibility and Work Opportunity Reconciliation Act

For a more complete explanation of these federal changes see Federal Publication 553, *1996 Highlights and Changes*, which may be obtained from the Internal Revenue Service.

Taxpayers who have income affected by these changes should contact Taxpayer Information and Assistance of the Arizona Department of Revenue for information and to request a nonconformity adjustment (NCA) packet to make the required adjustments. Phone numbers are located on the front page of this booklet.

The Arizona Legislature may retroactively conform to the federal changes when the next legislative session begins in January. Therefore, you may want to obtain an extension of time to file and determine whether the legislature will conform prior to filing your Arizona return.

You may choose to file without using the NCA schedule. However, if the legislature does not conform, you will have to amend your Arizona return. If the legislature does conform, no further action will be necessary.

You may choose to file using the NCA schedule. However, if the legislature does conform, you will have to amend your Arizona return.

F 1 Arizona income before taxes - *from page 1, line 15*
 F 2 Arizona tax rate
 F 3 Subtotal: *multiply line F1 by line F2 (if less than \$50, enter the minimum tax of \$50)*
 F 4 Tax from recapture of tax credits - *from Form 300, Part II, line 18*
 F 5 Subtotal: *add lines F3 and F4*
 F 6 Tax credits - *from Form 300, Part II, line 33*
 F 7 Subtotal: *subtract line F6 from line F5*
 F 8 Recapture tax - *from Form 300, Part II, line 34*
 F 9 Subtotal: *add line F7 and line F8*
 F 10 1 plus the tax rate - *line F2*

F 1 _____
 F 2 _____
 F 3 _____
 F 4 _____
 F 5 _____
 F 6 _____
 F 7 _____
 F 8 _____
 F 9 _____
 F 10 1.09 _____
 F 11 _____

F 11 Tentative Arizona tax deduction - *line F9 divided by line F10*

F 12 Line F1 minus line F11 - *If less than zero, enter 0*

F 13

Arizona tax deduction - *If line F12 is less than or equal to \$556, enter the total of the \$50 minimum tax plus line F4 minus line F6 plus line F8. If line F12 is greater than \$556, enter the amount from line F11. In either case, the amount entered cannot be less than line F8. Enter the applicable amount here and on page 1, line 16. This must equal the tax liability computed for page 1, line 25.*